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UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA

In re

LORI SANCHEZ,

No. 04-10915

Debtor(s).

COUNTY OF SONOMA,

Plaintiff(s),

v.

A.P. No. 04-1091

LORI SANCHEZ,

Defendant(s).

Memorandum of Decision

During 1994 and 1995, debtor and defendant Lori Sanchez applied for and received welfare benefits from plaintiff County of Sonoma. As a condition of continued benefits, Sanchez was required to give the County monthly reports stating any changes in living arrangements. Sanchez gave the County several reports which were false, in that they failed to disclose changed circumstances including periods of her incarceration and a period of time when the child lived with his father and Sanchez was barred from seeing him due to a restraining order.

1 In 1997, an administrative law judge found that Sanchez had been overpaid \$6,312.00 in benefits.  
2 In 2001, Sanchez and the County entered into a stipulated judgment for \$5,700.00. The judgment recited  
3 that it “should not be interpreted as an admission of liability by [Sanchez] despite her agreement to enter  
4 judgment.” In this adversary proceeding, the County seeks a determination that this judgment is  
5 nondischargeable pursuant to § 523(a)(2) of the Bankruptcy Code.

6 Sanchez argues that the County is barred by the doctrine of *res judicata*, or claims preclusion,  
7 from arguing that its judgment is nondischargeable because the judgment is not based on fraud and  
8 contains the language that it is not to be interpreted as an admission of liability. However, litigants in  
9 state court are not required to litigate dischargeability before there is a bankruptcy. The County is not  
10 barred from demonstrating that its underlying claim is based on fraud. *Brown v. Felson*, 442 U.S. 127,  
11 99 S.Ct. 2205, 60 L.Ed.2d 767 (1979).

12 The County argued that it was entitled to seek a higher amount than the stipulated judgment based  
13 on conduct that pre-dated the judgment. *Res judicata* does bar these claims, since they would be barred  
14 in state court. Since the debt at issue has been reduced to judgment, this court’s only role is to declare  
15 the judgment nondischargeable (or not) in whole or in part; it is not free to find other pre-judgment  
16 damages. *In re Gertsch*, 237 B.R. 160, 172 (9th Cir. BAP 1999).

17 The court cannot find from the evidence that all of the overpayments were induced by fraud.  
18 Some of the County’s claims are based on months in which it calculated that Sanchez’ son spend more  
19 time with his father than with Sanchez (279 hours vs. 298 hours, according to the administrative law  
20 judge). While applicable regulations require Sanchez to reimburse the county, the court cannot say that  
21 the obligation was incurred by fraud. There is no evidence that Sanchez counted up the hours or reached  
22 the same conclusion as the County.

23 On the other hand, some of the overpayments were based on misrepresentations by Sanchez. As  
24 of early March, 1995, Sanchez was under a restraining order obtained by the boy’s father prohibiting  
25 her from contact with her son. In addition, Sanchez spent significant portions of May, June and July of  
26 1995 in jail and certainly knew that she was not her son’s primary care giver during that time. During

1 these times, Sanchez continued to file false monthly statements with the County which failed to disclose  
2 that her son was not living with her. From the evidence, the court has no difficulty finding that Sanchez  
3 knew that these reports were false and were made with the intent to induce the County to give her  
4 benefits to which she was not entitled. Under the circumstances, the County's reliance on these false  
5 reports was reasonable. The overpayments from March through July, 1995, are accordingly  
6 nondischargeable pursuant to § 523(a)(2) of the Bankruptcy Code.

7 Since Sanchez was overpaid a total of \$5,222.00 for the twelve months ending in July of 1995,  
8 and since the court has determined that benefits for five of these months were incurred by fraud, the court  
9 will declare that \$2,175.80 of the stipulated judgment, together with accrued interest thereon, is  
10 nondischargeable.

11 This memorandum constitutes the court's findings and conclusions pursuant to FRCP 52(a) and  
12 FRBP 7052. Counsel for the County shall submit an appropriate form of judgment forthwith.

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14 Dated: December 2, 2004

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16 Alan Jaroslovsky  
17 U.S. Bankruptcy Judge  
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